



DATE: February 16, 2021

TO: Federal Reserve Board
Via email: regs.comments@federalreserve.gov

RE: Comments on Federal Reserve CRA ANPR: Docket Number R-1723 and RIN Number 7100-AF94

On behalf of Working Solutions CDFI, I am writing this letter in response to the Federal Reserve Board proposal to reform Community Reinvestment Act (CRA) rules. We appreciate the Board's interest in strengthening the CRA so that banks can better meet the credit needs of low and moderate income communities and communities of color in our state and throughout the country.

Working Solutions CDFI is a nonprofit CDFI, providing business microloans of \$5,000 to \$50,000 primarily focused on start-up and early stage businesses. Working Solutions has provided loans for over 20 years, but it has been over the past five years specifically that our work has scaled as a direct response to the market gap for micro businesses and their capital needs. The last 12 months have been our busiest, in spite of, and because of, COVID-19. We serve the nine Bay Area counties, and as a CDFI are primarily focused on low-income, entrepreneurs of color, and women entrepreneurs. A typical Working Solutions client profile is a woman of color, with less than 5 years in business, for a business with less than \$250,000 in revenue and less than 5 employees. She is usually a maker, and while she may have a bank account, is often either not in business long enough, has a limited credit profile, or is simply too small to be of value to a traditional bank lender.

CDFI's have a long history with the CRA given roots of both in the Civil Rights movement. Inspired by the civil rights movement, the very first CDFIs set out to prove that access to affordable, responsible credit can transform a community. There are now more than 1,100 CDFIs certified by the Department of Treasury's Community Development Financial Institutions (CDFI) Fund with more than \$222 billion in total assets. With cumulative loan loss rates of less than 1 percent, CDFIs lend prudently and productively in exactly the low- and moderate-income (LMI) communities that are the focus of CRA. Working Solutions therefore has an industry as well as institutional history of partnership with banks ranging from the very large, to regional, and even smaller specialty banks, who work collaboratively with us to serve the hardest to reach clients. The Community Reinvestment Act has played a key role in this effective collaboration, fostering millions of new homeowners, thriving businesses, and accountholders. Any reform should build on this successful record, not reverse or pull back.

We highlight the following key principles, which should inform any CRA reform efforts:

1. **CRA must be enforced through joint regulatory framework.** Since the law's inception, bank regulators have enforced CRA through a joint regulatory framework. Under this proposal, there could be multiple regulatory regimes to enforce the same law. This might encourage regulatory arbitrage, with banks "flipping" their charters from one agency to another to find the most advantageous regulations. We join our industry lead, Opportunity Finance Network (OFN) to

strongly encourage the Federal Reserve, FDIC, and OCC to continue to enforce CRA through a shared regulatory framework. The Federal Reserve's ANPR is an important step but its impact will be limited if all three regulators are not working under the same rule. We urge the bank regulators to work together on commonsense reforms to the rule that will drive greater investment into marginalized communities.

2. **Take race into account.** We agree with many advocates and with the Board that “[to] more effectively meet the needs of LMI communities and address inequities in credit access” is the core purpose of the CRA statute and must remain the focus of reform efforts. CRA should hold banks accountable to meet the credit needs of borrowers and neighborhoods of color, so that it achieves its Congressional purpose of addressing redlining. CRA rules should look at whether banks are helping to meet the credit needs of LMI people and neighborhoods and people and neighborhoods of color.
3. **End CRA grade inflation and ensure greater reinvestment.** CRA reform efforts should refine the system so that banks are incentivized to do more to serve communities, not the same, or less. The new system must set the bar higher so that less than 96% of banks are rated Satisfactory or Outstanding, as is the case now.
4. **Expand scrutiny of financial services such as branches and bank accounts.** The Board does well to highlight the impact that branch and product access can have on bringing people into the financial mainstream, and helping them to achieve financial stability and build wealth. CRA should continue to focus on branch presence, while also evaluating how well banks are providing deposit products and financial services that help consumers avoid high cost alternatives and move towards financial independence. The ANPR considers whether small banks should be required to serve whole counties in their assessment areas due to branch or ATM locations, or whether they can “carve out” by census tract. OFN does not support allowing small banks to exclude parts of counties where it does not have a physical presence and where it has de minimis lending or there is substantial competition. This could have a negative impact on larger rural counties where a bank might not have a physical presence but still conducts substantial business in the community. Market share should be considered when determining a bank's assessment areas – banks with significant market share that are taking deposits or making loans throughout a county should have CRA obligations throughout that county.
5. **Increase community participation.** The Board is commended for acknowledging the important role that community and public input has played in helping to ensure that banks are serving LMI communities and communities of color. Community input should be sought through all phases of CRA implementation. Community Benefits Agreements should be encouraged. More time should be provided for public input, and public hearings more readily granted during bank exam, bank merger and bank branch closing applications.

6. **Bank obligations should be tied to bank presence and activity, while also encouraging reinvestment in poorly served areas like rural communities and Native American lands.**

Working Solutions strongly opposes the ANPR's proposal to increase the threshold for small banks from those under \$326 million in assets to either \$750 million or \$1 billion. The increase in small bank threshold could exempt many more banks from a community development test, which could impact community development investment in CDFIs and rural areas. Banks should have CRA obligations in all communities where they seek to derive profits, and certainly the communities that represent a majority of bank lending. The Board is commended for getting rid of the limited scope analysis which has led to less reinvestment in rural communities, and for searching for ways to further meet the credit needs in rural communities and Indian Country.

7. **Beware of creating loopholes or alternatives that do not serve the goals of CRA.** Community development services are difficult to quantify but are important and should receive qualitative consideration on the community development test. Banks should not easily be able to get CRA credit for activities outside of their assessment areas that do not have a significant positive impact on LMI people and people of color.

Thank you for the opportunity to comment. To discuss this comment letter, further, feel free to contact me, Sara Razavi at sara@workingsolutions.org or 415-655-5433.

Sincerely,



Sara Razavi
CEO